

**REPORT OF THE AUDIT OF THE
BALLARD COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2014**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT OF THE
BALLARD COUNTY FISCAL COURT

June 30, 2014

The Auditor of Public Accounts has completed the audit of the Ballard County Fiscal Court for fiscal year ended June 30, 2014.

We have issued a qualified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Ballard County, Kentucky.

Financial Condition:

The Ballard County Fiscal Court had total receipts of \$5,046,998 and disbursements of \$5,728,684 in fiscal year 2014. This resulted in a total ending fund balance of \$839,414, which is an increase of \$113,933 from the prior year.

Report Comments:

- 2014-001 Material Weakness Over The Health Reimbursement Account Resulted In Misuse And Overpayments
- 2014-002 Retirement Was Not Properly Withheld From Employees' Checks And Was Not Properly Reported And Paid To CERS
- 2014-003 Ballard County Did Not Properly Compensate Employees For Overtime
- 2014-004 Ballard County Did Not Properly Withhold Health Insurance From Employees' Checks
- 2014-005 Ballard County Fiscal Court Has Material Weaknesses And Non Compliances Surrounding Payroll And Timekeeping
- 2014-006 The Fiscal Court Expended Funds In Excess Of Revenues Collected
- 2014-007 Ballard County Fiscal Court Has Material Weaknesses Over Cash And Financial Reporting
- 2014-008 Short Term Borrowings Were Not In Compliance With KRS 65.117 Or KRS 65.7707
- 2014-009 Ballard County Materially Misstated Outstanding Debt Balances On The 4th Quarter Financial Report
- 2014-010 The Ballard County Fiscal Court Did Not Pay Invoices Within 30 Working Days
- 2014-011 Internal Controls Over Disbursements Were Weak
- 2014-012 The Ballard County Fiscal Court Had Weak Internal Controls Over Capital Assets
- 2014-013 Internal Control Over The Collection Of And The Accounting For Payroll Taxes Were Weak
- 2014-014 The Former Jailer Failed To Maintain Proper Accounting Records And Establish Financial Controls
- 2014-015 The Former Jailer Failed To Deposit Receipts Into The Jail Inmate Account
- 2014-016 Inmate Fees Collected At The Detention Center Were Not Turned Over To The County Treasurer Timely
- 2014-017 Ballard County Did Not Properly Balance Their Annual Budget

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Vickie Viniard, Ballard County Judge/Executive
Members of the Ballard County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Ballard County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1, the financial statement is prepared by Ballard County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Ballard County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

Ballard County's Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis, includes the receipts and disbursements of the Jail Commissary Fund, which did not maintain adequate accounting records. Since the Jail Commissary Fund accounting records were not adequate, the financial information presented for the receipts, disbursements, and fund balance of the Ballard County Jail Commissary Fund cannot be determined to be reasonably accurate.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matters discussed in the "Basis for Qualified Opinion on Regulatory Basis of Accounting" paragraph, the financial statement referred to above presents fairly, in all material respects, the fund balances of Ballard County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Emphasis of Matter

As discussed in Note 11 to the financial statements, in August 2015, a large employer decided to stop production at its paper mill in Ballard County. This decision could result in a substantial loss of occupational tax receipts for Ballard County. Our opinion is not modified with respect to this matter.

To the People of Kentucky
 Honorable Matthew G. Bevin, Governor
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 Finance and Administration Cabinet
 Honorable Vickie Viniard, Ballard County Judge/Executive
 Members of the Ballard County Fiscal Court

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Ballard County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules and capital asset schedule have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the basic financial statement.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2015 on our consideration of Ballard County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2014-001 Material Weakness Over The Health Reimbursement Account Resulted In Misuse And Overpayments
- 2014-002 Retirement Was Not Properly Withheld From Employees' Checks And Was Not Properly Reported And Paid To CERS
- 2014-003 Ballard County Did Not Properly Compensate Employees For Overtime
- 2014-004 Ballard County Did Not Properly Withhold Health Insurance From Employees' Checks
- 2014-005 Ballard County Fiscal Court Has Material Weaknesses And Non Compliances Surrounding Payroll And Timekeeping
- 2014-006 The Fiscal Court Expended Funds In Excess Of Revenues Collected
- 2014-007 Ballard County Fiscal Court Has Material Weaknesses Over Cash And Financial Reporting
- 2014-008 Short Term Borrowings Were Not In Compliance With KRS 65.117 Or KRS 65.7707
- 2014-009 Ballard County Materially Misstated Outstanding Debt Balances On The 4th Quarter Financial Report
- 2014-010 The Ballard County Fiscal Court Did Not Pay Invoices Within 30 Working Days
- 2014-011 Internal Controls Over Disbursements Were Weak
- 2014-012 The Ballard County Fiscal Court Had Weak Internal Controls Over Capital Assets
- 2014-013 Internal Control Over The Collection Of And The Accounting For Payroll Taxes Were Weak
- 2014-014 The Former Jailer Failed To Maintain Proper Accounting Records And Establish Financial Controls

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Other Reporting Required by Government Auditing Standards (Continued)

- 2014-015 The Former Jailer Failed To Deposit Receipts Into The Jail Inmate Account
- 2014-016 Inmate Fees Collected At The Detention Center Were Not Turned Over To The County Treasurer
Timely
- 2014-017 Ballard County Did Not Properly Balance Their Annual Budget

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal stroke extending to the right.

Mike Harmon
Auditor of Public Accounts

August 31, 2015

BALLARD COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

Vickie Viniard	County Judge/Executive
Delaine Hazelwood	Magistrate
Steve Cooper	Magistrate
Martin Flournoy	Magistrate
Robert Renfrow	Magistrate
Larry Cooper	Magistrate

Other Elected Officials:

Vicki Hayden	County Attorney
Mike Horn	Jailer
Lynn Lane	County Clerk
Holly Dunker	Circuit Court Clerk
Todd Cooper	Sheriff
Anita Campbell	Property Valuation Administrator
Robert Morrow	Coroner

Appointed Personnel:

Belinda Foster	County Treasurer
Leslie Story	Finance Officer

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BALLARD COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

BALLARD COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,078,677	\$	\$
In Lieu Tax Payments	9,533		
Excess Fees	38,265		
Licenses and Permits	675		
Intergovernmental	131,587	1,607,031	350,238
Charges for Services			7,016
Miscellaneous	27,728	87,112	28,049
Interest			
Total Receipts	<u>1,286,465</u>	<u>1,694,143</u>	<u>385,303</u>
DISBURSEMENTS			
General Government	951,009		
Protection to Persons and Property	22,691		741,592
General Health and Sanitation	21,766	83,491	
Social Services	2,086		
Recreation and Culture	22,356		
Roads		831,929	
Debt Service		651,107	
Capital Projects			
Administration	547,614	252,133	188,144
Total Disbursements	<u>1,567,522</u>	<u>1,818,660</u>	<u>929,736</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(281,057)</u>	<u>(124,517)</u>	<u>(544,433)</u>
Other Adjustments to Cash (Uses)			
Payroll Revolving Account	15,681		
Borrowed Money			
Financing Obligation Proceeds		67,685	
Transfers From Other Funds	758,000	645,000	578,000
Transfers To Other Funds	(473,000)	(553,000)	
Total Other Adjustments to Cash (Uses)	<u>300,681</u>	<u>159,685</u>	<u>578,000</u>
Net Change in Fund Balances	19,624	35,168	33,567
Fund Balances - Beginning (Restated)	(2,490)	(38,426)	(8,583)
Fund Balances - Ending	<u>\$ 17,134</u>	<u>\$ (3,258)</u>	<u>\$ 24,984</u>
Composition of Fund Balance			
Bank Balance	\$ 20,361	\$ 24,770	\$ 25,401
Payroll Revolving Reconciled Balance	15,681		
Add: Receivables			
Less: Outstanding Checks	<u>(18,908)</u>	<u>(28,028)</u>	<u>(417)</u>
Fund Balances - Ending	<u>\$ 17,134</u>	<u>\$ (3,258)</u>	<u>\$ 24,984</u>

The accompanying notes are an integral part of the financial statement.

BALLARD COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

<u>Budgeted Funds</u>			<u>Unbudgeted Funds</u>		<u>Internal Service Fund</u>	
Disaster Emergency Services Fund	Ambulance Fund	Occupational Tax Fund	Public Properties Corporation Fund	Jail Commissary Fund	Total Funds	Medical Reimbursements Fund
\$	\$	\$ 1,166,307	\$	\$	\$ 2,244,984	\$
					9,533	
					38,265	
					675	
4,149	10,000		128,922		2,231,927	
	324,868				331,884	
20,363	748	3,609		9,251	176,860	116,000
		1,227	11,643		12,870	
<u>24,512</u>	<u>335,616</u>	<u>1,171,143</u>	<u>140,565</u>	<u>9,251</u>	<u>5,046,998</u>	<u>116,000</u>
		82,378			1,033,387	
47,476	639,881				1,451,640	
27,469					132,726	
					2,086	
				2,037	24,393	
					831,929	
	17,472	253	404,995		1,073,827	
		33,754			33,754	
8,286	147,736		1,029		1,144,942	102,900
<u>83,231</u>	<u>805,089</u>	<u>116,385</u>	<u>406,024</u>	<u>2,037</u>	<u>5,728,684</u>	<u>102,900</u>
(58,719)	(469,473)	1,054,758	(265,459)	7,214	(681,686)	13,100
		700,253			15,681	
					700,253	
					67,685	
56,000	480,000	65,000	271,143		2,853,143	
		(1,815,143)			(2,841,143)	(12,000)
<u>56,000</u>	<u>480,000</u>	<u>(1,049,890)</u>	<u>271,143</u>		<u>795,619</u>	<u>(12,000)</u>
(2,719)	10,527	4,868	5,684	7,214	113,933	1,100
2,692	31,800	527,141	209,627	3,720	725,481	12,516
<u>\$ (27)</u>	<u>\$ 42,327</u>	<u>\$ 532,009</u>	<u>\$ 215,311</u>	<u>\$ 10,934</u>	<u>\$ 839,414</u>	<u>\$ 13,616</u>
\$ 1,113	\$ 47,864	\$ 534,024	\$ 215,311	\$ 1,684	\$ 870,528	\$ 13,716
					15,681	
				9,250	9,250	
<u>(1,140)</u>	<u>(5,537)</u>	<u>(2,015)</u>			<u>(56,045)</u>	<u>(100)</u>
<u>\$ (27)</u>	<u>\$ 42,327</u>	<u>\$ 532,009</u>	<u>\$ 215,311</u>	<u>\$ 10,934</u>	<u>\$ 839,414</u>	<u>\$ 13,616</u>

The accompanying notes are an integral part of the financial statement.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

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BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Ballard County includes all budgeted and unbudgeted funds under the control of the Ballard County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Disaster Emergency Services Fund - The primary purpose of this fund is to account for grants and related disbursements when disaster and emergency events occur. The primary sources of receipts for this fund are grants from the state and federal governments.

Ambulance Fund - The primary purpose of this fund is to account for funds received and disbursed in the operation of the ambulance services provided by the county.

Occupational Tax Fund - The purpose of this fund is to account for payroll tax receipts and expenses. The occupational tax fund may be used for general purpose expenses which the county budgeted for general government, debt service, capital projects, and administration for the fiscal year or transferred to other operating funds.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation - The purpose of this fund is to account for debt service requirements of the general obligation bonds of the fiscal court. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

Internal Service Fund

Medical Reimbursement Fund - This fund was established to account for Health Reimbursement Accounts (HRA) offered to the Ballard County employees who waive the county's health insurance. If an employee elects not to participate in the County's health insurance program, their employer's monthly health premium contribution is deposited and held in their name to be used by the employee for qualifying medical expenses.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United State of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Ballard County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Ballard County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the Board of Education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Ballard County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Road Fund	Occupational Tax Fund	Medical Reimbursement Fund	Total Transfers In
General Fund	\$	\$ 256,000	\$ 502,000	\$	\$ 758,000
Road Fund	280,000		353,000	12,000	645,000
Jail Fund	116,000	142,000	320,000		578,000
DES Fund	9,000	5,000	42,000		56,000
Ambulance Fund	65,000	88,000	327,000		480,000
Occupational Tax Fund	3,000	62,000			65,000
Public Properties Corporation			271,143		271,143
Total Transfers Out	<u>\$ 473,000</u>	<u>\$ 553,000</u>	<u>\$ 1,815,143</u>	<u>\$ 12,000</u>	<u>\$ 2,853,143</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

Note 4. Agency Trust Fund

Trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the Jail Inmate Fund as of June 30, 2014 was \$34,449.

Note 5. Long-term Debt

A. General Obligation Detention Facility Refinancing Bonds, Series 2002

Ballard County issued General Obligation Detention Facility Refinancing Bonds, Series 2002, dated October 1, 2002, for the purpose of 1) advance refunding all of the outstanding Series 1995A bonds issued by the Ballard County Public Properties Corporation; and 2) paying the cost of issuance on the bonds. As of June 30, 2005, the Series 1995A bonds had been called. Ballard County issued \$2,070,000 of refinancing bonds, the proceeds of which were used to discharge all prior bonds. As of June 30, 2014, the outstanding bond principal was \$200,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2015	<u>\$ 200,000</u>	<u>\$ 8,250</u>
Totals	<u>\$ 200,000</u>	<u>\$ 8,250</u>

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

B. Courthouse Facility First Mortgage Refunding Revenue Bonds, Series 2007

The Ballard County Public Properties Corporation issued First Mortgage Refunding Revenue Bonds, Series 2007, dated February 8, 2007, for the purpose of 1) advance refunding all of the outstanding Series 1995B bonds issued by the Ballard County Public Properties Corporation; and 2) paying the cost of issuance on the bonds. As of June 30, 2007, the Series 1995B bonds had been called. Ballard County issued \$1,675,000 of refinancing bonds, the proceeds of which were used to discharge all prior bonds. As of June 30, 2014, the outstanding bond principal was \$565,000. Future principal and interest requirements are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 180,000	\$ 17,768
2016	190,000	10,875
2017	<u>195,000</u>	<u>3,656</u>
Totals	<u>\$ 565,000</u>	<u>\$ 32,299</u>

C. Financing Agreement – Road Project #2

On October 1, 2007, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for the financing of a road paving project to be located and used in Ballard County, Kentucky. The principal of the lease is \$650,000 with repayment to be made over a seven year period. Principal payments are due monthly on the 20th of each month in variable amounts; interest plus associated fees are due monthly in variable amounts. As of June 30, 2014, the outstanding lease principal was \$37,328. Future principal and interest requirements are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 37,328	\$ 455
Totals	<u>\$ 37,328</u>	<u>\$ 455</u>

D. Financing Agreement – Ambulance

On January 19, 2012, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for the purchase of an ambulance to be used in Ballard County. The principal of the lease is \$79,999 with repayment to be made over a six year period. Principal payments are due monthly on the 20th of each month in variable amounts; interest plus associated fees are due monthly in variable amounts. As of June 30, 2014, the outstanding lease principal was \$54,492. Future principal and interest requirements are as follows:

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

D. Financing Agreement – Ambulance (Continued)

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 11,201	\$ 2,247
2016	11,574	1,730
2017	11,960	1,195
2018	12,359	643
2019	7,398	112
Totals	<u>\$ 54,492</u>	<u>\$ 5,927</u>

E. Financing Agreement – Ambulance Equipment

On October 3, 2012, Ballard County entered into a financing agreement with the US Bank Equipment Finance for the purchase of ambulance equipment. The principal of the lease is \$14,079 with repayment to be made over a four year period. Principal payments are due monthly on the 30th of each month. As of June 30, 2014, the outstanding lease principal was \$8,834. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 3,529	\$ 355
2016	3,706	178
2017	1,599	20
Totals	<u>\$ 8,834</u>	<u>\$ 553</u>

F. Financing Agreement – Tractor Mower

On August 11, 2010, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for the purchase of a tractor mower to be used in Ballard County. The principal of the lease is \$97,436 with repayment to be made over a five year period. Principal payments are due monthly on the 20th of each month in variable amounts; interest plus associated fees are due monthly in variable amounts. As of June 30, 2014, the outstanding lease principal was \$24,589. Future principal and interest requirements are as follows:

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

F. Financing Agreement – Tractor Mower (Continued)

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 21,002	\$ 690
2016	3,587	20
Totals	<u>\$ 24,589</u>	<u>\$ 710</u>

G. Financing Agreement – Trucks/Bush Hog/Salt Spreader

On April 25, 2014, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for the purchase of two trucks, a bush hog, and a salt spreader to be used in Ballard County. The principal of the lease is \$67,685 with repayment to be made over a five year period. Principal payments are due monthly on the 20th of each month in variable amounts; interest plus associated fees are due monthly in variable amounts. As of June 30, 2014, outstanding lease principal was \$65,631. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 12,772	\$ 2,363
2016	13,181	1,851
2017	13,602	1,322
2018	14,037	777
2019	12,039	219
Totals	<u>\$ 65,631</u>	<u>\$ 6,532</u>

H. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 390,000	\$	\$ 190,000	\$ 200,000	\$ 200,000
Revenue Bonds	740,000		175,000	565,000	180,000
Financing Obligations	267,108	67,685	143,919	190,874	85,832
Total Long-term Debt	<u>\$ 1,397,108</u>	<u>\$ 67,685</u>	<u>\$ 508,919</u>	<u>\$ 955,874</u>	<u>\$ 465,832</u>

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Short-term Debt

A. Financial Agreement – Operating Loan

On May 21, 2013, Ballard County entered into a financing agreement with First Community Bank for the purpose of operating funds in Ballard County. The principal of the loan is \$191,503 with a maturity date of August 21, 2013. As of June 30, 2014, the note was retired.

B. Financial Agreement – Operating Loan

On September 13, 2013, Ballard County entered into a financing agreement with First Community Bank for the purpose of operating funds in Ballard County. The principal of the loan is \$250,253 with a maturity date of February 13, 2014. As of June 30, 2014, the note was retired.

C. Financial Agreement – Operating Loan

On April 17, 2014, Ballard County entered into a financing agreement with First Community Bank for the purpose of operating funds in Ballard County. The principal of the loan is \$300,000 with a maturity date of December 31, 2014. As of June 30, 2014, the note was outstanding.

D. Financial Agreement – Operating Loan

On June 12, 2014, Ballard County entered into a financing agreement with First Community Bank for the purpose of operating funds in Ballard County. The principal of the loan is \$150,000 with a maturity date of December 31, 2014. As of June 30, 2014, the note was outstanding.

E. Changes In Short-term Liabilities

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Promissory Notes	\$ 191,503	\$ 700,253	\$ 441,756	\$ 450,000	\$ 450,000
Total Short-term Debt	\$ 191,503	\$ 700,253	\$ 441,756	\$ 450,000	\$ 450,000

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 7. Employee Retirement System (Continued)

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

The county's contribution for FY 2012 was \$405,624, FY 2013 was \$458,201, and FY 2014 was \$451,915.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

For the year ended June 30, 2014, the Ballard County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 8. Deferred Compensation (Continued)

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2014, Ballard County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Prior Period Adjustments

General Fund - The beginning balance of the General Fund was increased by \$1,074 to account for prior year voided checks. This resulted in a restated beginning balance of (\$2,490).

Road Fund - The beginning balance of the Road Fund was increased by \$77 to account for prior year voided checks. This resulted in a restated beginning balance of (\$38,426).

Jail Fund - The beginning balance of the Jail Fund was increased by \$1,471 to account for prior year voided checks and an account that was excluded. This resulted in a restated beginning balance of (\$8,583).

DES Fund - The beginning balance of the Disaster Emergency Services Fund was increased by \$65 to account for prior year voided checks. This resulted in a restated beginning balance of \$2,692.

Ambulance Fund - The beginning balance of the Ambulance Fund was increased by \$425 to account for prior year voided checks. This resulted in a restated beginning balance of \$31,800.

Medical Reimbursement Fund - The beginning balance of the Medical Reimbursement Fund increased by \$500 to account for a prior year voided check. This resulted in a restated beginning balance of \$12,516.

Long-term Debt - The beginning balance of Long-term Debt decreased by \$378 due to a change in the payment schedule for the ambulance equipment.

Short-term Debt - The beginning balance of Short-term Debt increased by \$253 to account for a processing fee. This resulted in a restated beginning balance of \$191,503.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 11. Subsequent Events

A. Road Equipment Lease

On April 28, 2015, the Ballard County Fiscal Court approved the borrowing of \$400,000 from the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of road equipment. This equipment included a 2015 John Deere grader, a 2015 Freightliner dump truck, a 2014 Kabota tractor, and a 40 x 60 feet building for storage.

B. Large Employer

In August 2015, a large employer decided to stop paper production at its paper mill in Ballard County. In November 2015, the mill will begin idling operations indefinitely, resulting in over 300 employees being laid off. In addition, the economic impact on Ballard County is a loss of payroll tax receipts in excess of \$350,000.

Note 12. Health Reimbursement Account

The Ballard Fiscal Court established a flexible spending account to provide employees an additional health benefit. The County has contracted with Febco, Inc., a third-party administrator, to administer the plan. The plan provides a debit card to each eligible employee providing \$2,700 each year to pay for qualified medical expenses. The balance of the plan is \$56,737.

Note 13. Fund Balance - Deficits

As of June 30, 2014, the Road Fund and the Disaster Emergency Services Fund had deficit balances in the amount of \$3,258 and \$27 respectively. These deficits were due to the expending funds in excess of revenues. These deficits were eliminated with the deposit of funds after June 30, 2014.

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

GENERAL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,026,555	\$ 1,026,555	\$ 1,078,677	\$ 52,122
In Lieu Tax Payments	15,056	15,056	9,533	(5,523)
Excess Fees	49,000	49,000	38,265	(10,735)
Licenses and Permits	1,300	1,300	675	(625)
Intergovernmental	106,949	106,949	131,587	24,638
Charges for Services	40,000	40,000		(40,000)
Miscellaneous	175,879	175,879	27,728	(148,151)
Interest	2,400	2,400		(2,400)
Total Receipts	<u>1,417,139</u>	<u>1,417,139</u>	<u>1,286,465</u>	<u>(130,674)</u>
DISBURSEMENTS				
General Government	924,159	1,024,270	951,009	73,261
Protection to Persons and Property	28,828	28,828	22,691	6,137
General Health and Sanitation	23,872	23,872	21,766	2,106
Social Services	7,500	7,500	2,086	5,414
Recreation and Culture	90,000	90,000	22,356	67,644
Debt Service	365,500	325,899		325,899
Administration	753,485	692,975	547,614	145,361
Total Disbursements	<u>2,193,344</u>	<u>2,193,344</u>	<u>1,567,522</u>	<u>625,822</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(776,205)</u>	<u>(776,205)</u>	<u>(281,057)</u>	<u>495,148</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	490,430	490,430	758,000	267,570
Transfers To Other Funds	(114,225)	(114,225)	(473,000)	(358,775)
Borrowed Money	350,000	350,000		(350,000)
Total Other Adjustments to Cash (Uses)	<u>726,205</u>	<u>726,205</u>	<u>285,000</u>	<u>(441,205)</u>
Net Change in Fund Balance	(50,000)	(50,000)	3,943	53,943
Fund Balance - Beginning	<u>50,000</u>	<u>50,000</u>	<u>(2,490)</u>	<u>(52,490)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,453</u>	<u>\$ 1,453</u>

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,177,874	\$ 1,187,826	\$ 1,607,031	\$ 419,205
Miscellaneous	139,888	139,888	87,112	(52,776)
Interest	200	200		(200)
Total Receipts	<u>1,317,962</u>	<u>1,327,914</u>	<u>1,694,143</u>	<u>366,229</u>
DISBURSEMENTS				
General Health and Sanitation	103,426	104,150	83,491	20,659
Roads	1,207,723	947,207	831,929	115,278
Debt Service	168,374	603,237	651,107	(47,870)
Administration	311,500	346,381	252,133	94,248
Total Disbursements	<u>1,791,023</u>	<u>2,000,975</u>	<u>1,818,660</u>	<u>182,315</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(473,061)</u>	<u>(673,061)</u>	<u>(124,517)</u>	<u>548,544</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			67,685	67,685
Transfers From Other Funds	278,061	278,061	645,000	366,939
Transfers To Other Funds			(553,000)	(553,000)
Borrowed Money	<u>185,000</u>	<u>185,000</u>		<u>(185,000)</u>
Total Other Adjustments to Cash (Uses)	<u>463,061</u>	<u>463,061</u>	<u>159,685</u>	<u>(303,376)</u>
Net Change in Fund Balance	(10,000)	(210,000)	35,168	245,168
Fund Balance - Beginning	<u>10,000</u>	<u>10,000</u>	<u>(38,426)</u>	<u>(48,426)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (200,000)</u>	<u>\$ (3,258)</u>	<u>\$ 196,742</u>

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 482,850	\$ 482,850	\$ 350,238	\$ (132,612)
Charges for Services	32,686	32,686	7,016	(25,670)
Miscellaneous	17,000	17,000	28,049	11,049
Interest	100	100		(100)
Total Receipts	532,636	532,636	385,303	(147,333)
DISBURSEMENTS				
Protection to Persons and Property	777,586	779,086	741,592	37,494
Administration	285,575	284,075	188,144	95,931
Total Disbursements	1,063,161	1,063,161	929,736	133,425
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(530,525)	(530,525)	(544,433)	(13,908)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	530,525	530,525	578,000	47,475
Total Other Adjustments to Cash (Uses)	530,525	530,525	578,000	47,475
Net Change in Fund Balance			33,567	33,567
Fund Balance - Beginning			(8,583)	(8,583)
Fund Balance - Ending	\$ 0	\$ 0	\$ 24,984	\$ 24,984

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	DES FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 82,963	\$ 82,963	\$ 4,149	\$ (78,814)
Miscellaneous	17,607	17,607	20,363	2,756
Total Receipts	100,570	100,570	24,512	(76,058)
DISBURSEMENTS				
Protection to Persons and Property	88,326	70,326	47,476	22,850
General Health and Sanitation	13,200	31,200	27,469	3,731
Administration	12,043	12,043	8,286	3,757
Total Disbursements	113,569	113,569	83,231	30,338
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(12,999)	(12,999)	(58,719)	(45,720)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	12,999	12,999	56,000	43,001
Total Other Adjustments to Cash (Uses)	12,999	12,999	56,000	43,001
Net Change in Fund Balance			(2,719)	(2,719)
Fund Balance - Beginning			2,692	2,692
Fund Balance - Ending	\$ 0	\$ 0	\$ (27)	\$ (27)

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 17,838	\$ 17,838	\$ 10,000	\$ (7,838)
Charge For Services	534,922	534,922	324,868	(210,054)
Miscellaneous	11,000	11,000	748	(10,252)
Total Receipts	563,760	563,760	335,616	(228,144)
DISBURSEMENTS				
Protection to Persons and Property	629,604	687,896	639,881	48,015
Debt Service		17,884	17,472	412
Administration	129,000	155,203	147,736	7,467
Total Disbursements	758,604	860,983	805,089	55,894
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(194,844)	(297,223)	(469,473)	(172,250)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	194,844	194,844	480,000	285,156
Total Other Adjustments to Cash (Uses)	194,844	194,844	480,000	285,156
Net Change in Fund Balance		(102,379)	10,527	112,906
Fund Balance - Beginning			31,800	31,800
Fund Balance - Ending	\$ 0	\$ (102,379)	\$ 42,327	\$ 144,706

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,181,265	\$ 1,181,265	\$ 1,166,307	\$ (14,958)
Miscellaneous			3,609	3,609
Interest	17,000	17,000	1,227	(15,773)
Total Receipts	1,198,265	1,198,265	1,171,143	(27,122)
DISBURSEMENTS				
General Government	393,430	393,430	82,378	311,052
Debt Service	951,007	951,007	253	950,754
Capital Projects	521,333	221,333	33,754	187,579
Administration	87,870	87,870		87,870
Total Disbursements	1,953,640	1,653,640	116,385	1,537,255
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(755,375)	(455,375)	1,054,758	1,510,133
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			65,000	65,000
Transfers To Other Funds	(1,392,634)	(1,392,634)	(1,815,143)	(422,509)
Borrowed Money	350,000	350,000	700,253	350,253
Total Other Adjustments to Cash (Uses)	(1,042,634)	(1,042,634)	(1,049,890)	(7,256)
Net Change in Fund Balance	(1,798,009)	(1,498,009)	4,868	1,502,877
Fund Balance - Beginning	1,650,269	1,650,269	527,141	(1,123,128)
Fund Balance - Ending	\$ (147,740)	\$ 152,260	\$ 532,009	\$ 379,749

BALLARD COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of the General Fund

The Statement of Receipts, Disbursements, and Changes in Fund Balances – Regulatory Basis differs from the Budgetary Comparison Schedule for the General Fund in Other Adjustments to Cash (Uses) by \$15,681 due to the revolving payroll account balance.

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ 285,000
Payroll Revolving Account	<u>15,681</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ 300,681</u>
Fund Balance Ending - Budgetary Basis	\$ 1,453
Payroll Revolving Account	<u>15,681</u>
Total Fund Balance Beginning (Restated) - Regulatory Basis	<u>\$ 17,134</u>

Note 3. Budget for the Occupational Tax Fund is Unbalanced

The annual budget for the Occupational Tax Fund is not balanced due to an error made on “Other Adjustments to Cash (Uses)”.

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BALLARD COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

BALLARD COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 221,845	\$	\$	\$ 221,845
Buildings	5,954,728			5,954,728
Vehicles and Equipment	1,923,402			1,923,402
Infrastructure	2,206,446	408,429		2,614,875
	<u>\$ 10,306,421</u>	<u>\$ 408,429</u>	<u>\$ 0</u>	<u>\$10,714,850</u>
Total Capital Assets	<u>\$ 10,306,421</u>	<u>\$ 408,429</u>	<u>\$ 0</u>	<u>\$10,714,850</u>

BALLARD COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2014

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land	\$ 25,000	10-60
Buildings	\$ 25,000	10-75
Building Improvements	\$ 25,000	10-20
Machinery and Equipment	\$ 25,000	3-10
Vehicles	\$ 25,000	1-10
Infrastructure	\$ 25,000	10-30

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Vickie Viniard, Ballard County Judge/Executive
Members of the Ballard County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Ballard County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated August 31, 2015, wherein we issued a qualified opinion since accounting records for the Jail Commissary Fund were not adequate and the financial information presented for the receipts, disbursements, and fund balance of the Ballard County Jail Commissary Fund could not be determined to be reasonably accurate.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Ballard County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Ballard County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ballard County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as 2014-001, 2014-002, 2014-004, 2014-005, 2014-007, 2014-009, 2014-011, 2014-012, 2014-013, 2014-014, and 2014-016 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Ballard County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2014-001, 2014-002, 2014-003, 2014-005, 2014-006, 2014-008, 2014-010, 2014-014, 2014-015, 2017-016, and 2014-017.

County Judge's Responses to Findings

The Ballard County Judge's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The County Judge's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

August 31, 2015

**BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2014

BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001 Material Weaknesses Over The Health Reimbursement Account Resulted In Misuse And Overpayments

The following findings were noted with Ballard County's Health Reimbursement Account:

- Employees were overpaid the annual amount contributed by the County, including the County Treasurer who may have been overpaid \$13,007 for a four-year period.
- Prescriptions were reimbursed more than once, and in some cases up to three times.
- The County made reimbursements to employees that do not qualify under IRS guidelines, including gum, soft drinks, automatic transmission fluid, over-the-counter medication, and massages without a doctor's prescription.
- Reimbursements for services not yet received or expenses not yet incurred.
- Lack of proper supporting documentation for reimbursement amounts.
- Employees were not required to submit reimbursement forms prior to being reimbursed for medical expenses.
- The County Treasurer failed to produce reimbursement ledgers for fiscal year 2013 and 2014.
- For those years that did have reimbursement ledgers, the treasurer failed to post multiple reimbursement checks to those ledgers, causing the true amount of reimbursement not to be shown.
- Ballard County does not have a formal policy over health reimbursements.
- A lack of segregation of duties over the health reimbursement account.

The Health Reimbursement Account is maintained by the County Treasurer for those employees who waive the County's health insurance coverage. Each month, the County contributes \$500 for each employee who participates. These funds are then used to reimburse participating employees for medical expenses. Because of the weaknesses and non-compliances that were noted, testing was expanded to include health reimbursements for fiscal years 2011, 2012, 2013, and 2014.

Strong internal controls and a written policy governing the Health Reimbursement Account are vital in ensuring that it is accounted for properly and that all reimbursement amounts are appropriate and qualify under federal guidelines. They are also important in protecting the county's assets and those given the responsibility of accounting for them. Because the county failed to have either in place, the aforementioned findings occurred. In response to these findings, we make the following recommendations:

- Ballard County should adopt a formal policy, in compliance with federal guidelines, that governs health reimbursements offered to employees who waive the county's health insurance.
- The County should implement strong fiscal court oversight and monitoring of the account and ledgers, ensuring all disbursements are properly supported, properly recorded, and valid against the County's HRA policy.
- All claims submitted by employees for reimbursement should be subject to strict scrutiny in order to ensure employees are only reimbursed once for any medical expenses.
- The County should maintain accurate ledgers, detailing reimbursement amounts issued to employees who waive the County's insurance coverage.
- The County should eliminate all reimbursements for non-qualifying expenses according to IRS guidelines.
- The County should eliminate all reimbursements for services not yet received or expenses not yet incurred by employees.
- Employees should be required to submit reimbursement forms, accompanied by proper supporting documentation, prior to any reimbursement check being issued.

BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-001 Material Weaknesses Over The Health Reimbursement Account Resulted In Misuse And Overpayments (Continued)

Due to their severity, the findings noted will be turned over to the Office of the Attorney General of the Commonwealth of Kentucky.

County Judge/Executive Viniard's Response: Overpayments are being checked by County Attorney. Reimbursements for services not yet received had doctor estimates for monthly payments. Fiscal Court approves medical reimbursements of \$500 at the first of each fiscal year. Was unaware of reimbursement forms. This issue has been resolved. To our knowledge all ledgers were given to auditors however 2013 ledger, 2013 quarterly report and several other supportive documents that were given to auditors still have not been found. However, looking for these documents, we did find Marshall County paperwork in the courtroom.

Auditor's Reply: In order to perform testing over the Health Reimbursement Account, auditors requested the treasurer's reimbursement ledgers corresponding to fiscal years 2011, 2012, 2013, and 2014. Ledgers corresponding to fiscal years 2011 and 2012 were provided to auditors. Ledgers corresponding to fiscal years 2013 and 2014 were never provided to auditors, even after multiple requests. According to the County Treasurer, these ledgers were missing and never located prior to the end of fieldwork.

Overpayment amounts were determined by recapping cancelled checks for fiscal years 2011, 2012, 2013, and 2014, all of which were cosigned by the County Judge/Executive and the County Treasurer. The following is a breakdown of the amounts corresponding to the County Treasurer:

<u>Fiscal Year Ended June 30</u>	<u>Annual Reimbursements</u>	<u>Annual Limit</u>	<u>Overpayment</u>
2011	\$ 9,052	\$ 7,068	\$ 1,984
2012	8,249	6,534	1,715
2013	12,711	6,000	6,711
2014	8,597	6,000	2,597
	<u>\$ 38,609</u>	<u>\$ 25,602</u>	<u>\$ 13,007</u>

The advancement of health reimbursement funds is not allowable, regardless if estimates from doctors have been obtained. The instance noted during testing was not a doctor's estimate, but rather an invoice dated March 13, 2014 for services rendered that was included as supporting documentation for a reimbursement check dated July 22, 2013. This practice is not allowable under federal guidelines and should be eliminated by the County.

BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-002 Retirement Was Not Properly Withheld From Employees' Checks And Was Not Properly Reported And Paid To CERS

The following errors or problems were noted with the County's retirement benefits:

- One employee was excluded from the retirement report; therefore, retirement benefits for this employee were not turned over to the County Employee Retirement Systems (CERS).
- One employee's earnings for the month were reported at \$1,000 more on the retirement report than the payroll summary, resulting in too much being paid into retirement for this employee.
- The county's retirement contribution rate in the payroll software did not agree with the actual contribution rate for CERS.
- The additional 1% employee contribution for employees hired on or after September 1, 2008 was withheld from two employees' wages, but was not properly reported or turned over to CERS.
- The additional 1% employee contribution for employees hired on or after September 1, 2008 was not withheld from one employee's wages, but was reported on the monthly retirement report.
- Retirement withholdings and contributions for at least one month were not turned over to CERS timely, resulting in a \$1,000 penalty.

A strong internal control system over retirement is essential in ensuring that retirement benefits are calculated, reported, and paid to CERS properly. Because the county did not have such, the aforementioned errors occurred. In order to strengthen internal controls over retirement, we recommend, an individual independent of the payroll process reconcile the monthly retirement reports to monthly payroll summaries. This reconciliation should include tying all wage and retirement amounts on the retirement report to the payroll summary. This reconciliation should then be reviewed by the County Judge/Executive and/or the Fiscal Court. Once the retirement report and payroll summary are deemed accurate, retirement benefits should be submitted to CERS timely.

Because of their nature and severity, the findings associated with retirement will be turned over to the County Employee Retirement System (CERS).

County Judge/Executive Viniard's Response: Employee that was excluded had retired and came back, was unaware that County had to continue to match. Concerning retirement contributions we feel this is a software issue. We would welcome Ky. Retirement to come down and pay a visit to see what the issue happens to be. Concerning the penalty the treasurer was sick and was unable to submit report on time.

Auditor's Reply: The employee excluded from the County's monthly retirement report was not a retired employee that returned to work. While there may be software issues that are contributing to difficulties with calculating retirement withholdings and county contribution amounts, these issues are with the County's payroll software and not that of the County Employees Retirement System (CERS). Therefore, a visit by CERS would not remedy the problems noted with the County's retirement benefits. The problems noted are a direct result of very weak internal controls over the processing of retirement benefits. If implemented properly, the recommended internal controls and reconciliation procedures should detect any errors made with retirement withholdings and contributions in order for them to be corrected prior to being turned over to CERS.

BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-003 Ballard County Did Not Properly Compensate Employees For Overtime

Ballard County Road Department employees were not properly compensated for hours worked in excess of 40 hours per work week. It is our understanding that road employees who worked in excess of 40 hours in one work week were to receive wages at an hour for hour rate, and be awarded compensatory time at one-half time for each hour worked in excess of the 40 hours. However, this was not the case. Instead, road employees were compensated with wages at an hour for hour rate for those hours worked in excess of 40, but no compensatory time was awarded.

According to KRS 337.285(1), "No employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed. KRS 337.285(4) further states "Upon the written request by a county or city employee, made freely and without coercion, pressure, or suggestion by the employer, and upon a written agreement reached between the employer and the county or city employee before the performance of the work, a county or city employee who is not exempt from the provisions of the Federal Fair Labor Standards Act of 1938, as amended, 29 U.S.C. secs. 201 et seq., may be granted compensatory time in lieu of overtime pay, at the rate of not less than one and one-half (1-1/2) hours for each hour the county or city employee is authorized to work in excess of forty (40) hours in a work week."

Because the County was neither paying its road department employees at a rate of one and one-half times their hourly wage rate, nor allowing them to accrue compensatory time in lieu of overtime pay, the County was not in compliance with KRS 337.285. Therefore, we recommend the County comply with KRS 337.285 by compensating road department employees with wages or compensatory time at a rate not less than one and one-half hours for each hour worked in excess of 40 hours in a work week.

County Judge/Executive Viniard's Response: Treasurer appoints designee which most of the time is supervisor of each department to keep time cards and comp time records. Comp time has always been allowed in the road department and states that in the administrative code.

Auditor's Reply: While comp-time may be allowed by the County's administrative code, it was not properly awarded to Road Fund employees who worked in excess of 40 hours in a work week. As part of testing procedures, auditors requested leave balances in order to determine compliance with KRS 337.285. Auditors were later told by the County Treasurer that employees received straight pay for overtime hours worked. The County should pay road department employees accurately.

2014-004 Ballard County Did Not Properly Withhold Health Insurance From Employees' Checks

Ballard County was not withholding enough from employees' wages to cover the cost of health insurance; therefore, the County was incurring more of the cost of employees' insurance than was approved by the Fiscal Court. Based on inquiry of the County Judge/Executive and review of the fiscal court minutes, the County was to contribute \$275 per month for those employees that enrolled in the County's health insurance coverage. In addition to that, the County contributed \$225 per month towards a health reimbursement account (HRA) for those employees, plus the \$6 HRA administrator's fee for a total monthly contribution of \$506. Employees were responsible for any amount in excess of the County's contribution. Our audit of health insurance premiums and payroll records revealed the proper amount of funds was not being withheld from employees' wages, resulting in the County overpaying for employees' health insurance coverage.

BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-004 Ballard County Did Not Properly Withhold Health Insurance From Employees' Checks
 (Continued)

This overpayment was the result of weak internal controls over payroll and health insurance withholdings, including not having proper reviews of employees' withholding calculations. Strong internal controls over payroll withholdings, including health insurance, are vital in ensuring that proper amounts are withheld from employees' earnings, and that they are turned over to the appropriate parties. Strong internal controls also protect those individuals responsible for processing payroll. Because of their importance, we recommend the County strengthen internal controls over payroll withholdings. Controls such as a review of payroll earnings records, employee withholdings authorizations, and County personnel policies should be performed by an individual independent of the payroll process. This review should include a recalculation of withholding amounts and verification that these amounts are properly deducted from employees' earnings. This review should also include verification that withholdings amounts are reported properly and turned over to the appropriate parties. Once completed, the review should be signed by the individual performing the review, and submitted to the County Judge/Executive and/or Fiscal Court.

County Judge/Executive Viniard's Response: Per insurance agent due to the Health Care Reform Act the County had open enroll twice in one year. County wasn't aware of the \$6 dollar administrative fee should have been added to employee. Will comply.

2014-005 Ballard County Fiscal Court Has Material Weaknesses And Non-Compliances Surrounding Payroll and Timekeeping

The following findings were noted with Ballard County's payroll:

- Timesheets were not maintained for the County Treasurer and Finance Officer as required by KRS 337.320; however, overtime pay was awarded to them despite the fact that there were no timesheets to document the additional hours worked.
- Employees were not paid in accordance with the salary schedule approved by the Fiscal Court.
- Accumulated leave balances were not maintained for Ballard County Detention Center employees.

Strong internal controls over payroll and timekeeping are vital in ensuring that payroll amounts are calculated and accounted for properly. Strong internal controls are also important in protecting the County's assets and those given the responsibility of accounting for them, as well as helping make certain the County is in compliance with state statutes. Because the County failed to have either in place, the aforementioned findings occurred. In response to these findings, we recommend:

- Timesheets should be properly maintained for salaried employees as required by KRS 337.320.
- All timesheets should be signed by the corresponding employee and his or her supervisor.
- Employees should be paid in accordance with the salary schedule approved by the Fiscal Court. Any adjustments to this salary schedule should be properly reflected in the Fiscal Court minutes and included in employees' personnel files.
- Accumulated leave balances should be properly maintained, including those employees of the Ballard County Detention Center.

BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-005 Ballard County Fiscal Court Has Material Weaknesses And Non-Compliances Surrounding Payroll and Timekeeping (Continued)

By implementing the above recommendations, the County can strengthen its internal control system over payroll and timekeeping and reduce the risks of non-compliance and/or payroll errors, as well as protect itself against disputes regarding payroll amounts and leave balances.

County Judge/Executive Viniard's Response: Treasurer and Finance Officer recieve [sic] 6 hrs. per week. Timesheets will be keep [sic] in Judge Executive office. Accumulated leave from Jail is Jailer's responsibility.

2014-006 The Fiscal Court Expended Funds In Excess Of Revenues Collected

As of June 30, 2014, Ballard County had fund deficits in both the Road and Bridge Fund and the Disaster and Emergency Services (DES) Fund. These deficits were caused by expenditures in excess of revenues collected. In the Road and Bridge Fund, expenditures totaling \$1,750,975 were offset by revenues totaling \$1,747,717, resulting in an ending fund deficit of \$3,258. In the DES Fund, expenditures totaling \$83,231 were offset by revenues totaling \$83,204, resulting in a fund deficit of \$27.

KRS 68.110(1) states, "The fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for that year or levied, collected or appropriated for any special purpose." KRS 68.110(3) further states, "No member of the fiscal court shall knowingly vote for any appropriation or contract in violation of this section...." Because the county expended funds in excess of the revenues collected, the County was not in compliance with KRS 68.110. Therefore, we recommend the County comply with KRS 68.110 by monitoring fund balances more closely and not appropriating funds, which are not available.

County Judge/Executive Viniard's Response: Will comply.

2014-007 Ballard County Fiscal Court Has Material Weaknesses Over Cash And Financial Reporting

The County's 4th Quarter Financial Report and the County Treasurer's Settlement were both materially misstated. According to the County's 4th Quarter Financial Report, the total fund balance of all budgeted funds was \$475,992 as of June 30, 2014. The County Treasurer's annual settlement for fiscal year 2014 reported a total fund balance of (\$110,778) for budgeted funds, a variance of \$586,770 between the two reports. The audited financial statement reports an ending fund balance of \$613,169 for budgeted funds, a variance of \$137,177 with the 4th Quarter Financial Report and \$723,947 with the Treasurer's Settlement.

The variances and misstatements noted are the result of a weak internal control system over the cash and financial reporting system. Because of this weak internal control system, the transactions posted to the receipts and disbursements ledgers are not always in agreement with the actual transaction amounts, especially with payroll transactions and transfers. When the amounts posted to the receipts and disbursements ledgers do not agree with actual transactions, these misstatements occur.

BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-007 Ballard County Fiscal Court Has Material Weaknesses Over Cash And Financial Reporting
 (Continued)

To remedy the misstatements associated with cash and financial reporting, we recommend the County implement stronger internal controls. Controls such as a thorough review of the receipts and disbursements ledgers and bank reconciliations by someone independent of the accounting function can help detect misstatements and errors that have occurred. This review should include tracing transactions posted to the receipts and disbursements ledgers to actual bank statement transactions. It should also include agreeing fund balances between the quarterly report and bank reconciliations, checking for mathematical accuracy, and verification of bank reconciliation amounts. Once the ledgers and reconciliations are deemed accurate, the reviewer should document such, and submit the review to the Fiscal Court for approval. By implementing such procedures, the Fiscal Court can strengthen its internal control system and help ensure accurate financial reporting.

County Judge/Executive Viniard's Response: This is due to payroll and County's cash flow. Will comply.

Auditor's Reply: The material weaknesses over cash and financial reporting are not due to the County's payroll and cash flow problems. The material weaknesses over cash and financial reporting are a direct result of a lack of awareness on the part of the Fiscal Court that the County's financial reports should be in agreement. By properly implementing the recommended procedures, the County can strengthen internal controls over cash and financial reporting so that County's financial reports accurately reflect the financial position of the County.

2014-008 Short-Term Borrowings Were Not In Compliance With KRS 65.117 Or KRS 65.7707

During the 2014 fiscal year, Ballard County obtained three short-term notes payable to fund county operations. Two of these notes payable remained outstanding at the fiscal year end. While such short-term notes are allowable per statute, certain criterion needs to be met. According to KRS 65.117, "No city, county, urban-county, consolidated local government, charter county, or special purpose governmental entity as defined in KRS 65A.010 shall enter into any financing obligation of any nature...without first notifying the state local debt officer in writing"... KRS 65.7707 further states, "Notes payable shall mature on a date determined by the governing body which shall be no later than the last day of the fiscal year in which the notes are issued". (emphasis added)

Because the County neither notified the State Local Debt Officer, nor paid off the obligations by the fiscal year end, the County was in non-compliance with both KRS 65.117 and KRS 65.7707. Therefore, in the future, we recommend the Fiscal Court comply with said statutes by making the proper written notifications and satisfying short-term debt obligations by fiscal year end.

County Judge/Executive Viniard's Response: The short term loans were secured by Certificates of Deposit. We were not aware of the KRS 65.117 or 65.7707. Short-term loans have been done before w/o being addressed by auditors.

Auditor's Reply: The collateralization of short-term loans or notes has no bearing on the notification and approval requirements for such financial obligations. The *County Budget Preparation and State Local Finance Officer Policy Manual*, informally known as the DLG Budget Manual, addresses these notification and approval requirements in the "Local Government Financial Obligations" section of the manual. Furthermore, the collateralization of short-term loans or notes does not exempt the County from the maximum maturity date, which in this case was June 30, 2014.

BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-009 Ballard County Materially Misstated Outstanding Debt Balances On The 4th Quarter Financial Report

The June 30, 2014 outstanding debt balances reported on the 4th Quarter Financial Report were misstated when compared to the actual debt balances confirmed with lenders.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. Because the County failed to have a strong internal control system over liabilities and debt service, these misstatements were able to occur without detection. Therefore, we recommend the County strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the County consult with its lenders to verify outstanding debt balances are in agreement with the County's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

County Judge/Executive Viniard's Response: This is a software issue that is being addressed.

Auditor's Reply: The County Judge/Executive's response states that a software issue resulted in the outstanding debt balances reported on the 4th Quarter Financial Report being misstated. While it is true that a software issue may have contributed to the misstated amounts, the misstatements went undetected due to a lack of internal controls. If implemented properly, the recommended internal controls should detect any misstated debt balances so that they can be corrected and properly disclosed on the 4th Quarter Financial Report.

2014-010 The Ballard County Fiscal Court Did Not Pay Invoices Within 30 Working Days

On multiple occasions throughout fiscal year 2014, Ballard County failed to pay invoices within 30 working days of receipt of the invoice. According to KRS 65.140(2), "Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor." Because there was no evidence of a contract between the County and its vendors, nor a written letter of disapproval, the County was not in compliance with KRS 65.140. Therefore, we recommend the County comply with KRS 65.140 by paying all claims within 30 working days of the receipt of a vendor's invoice. If payment is not made within the 30 working days, we recommend the County have the necessary contract or letter of disapproval.

County Judge/Executive Viniard's Response: County does have contracts with some vendors, was not asked to review any. Some invoices are not recieved [sic] on time to be paid before another Fiscal Court meeting. Will comply to the best of our ability.

BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-011 Internal Controls Over Disbursements Were Weak

Material weaknesses exist over disbursements made by Ballard County. For fiscal year 2014, the County had disbursements that did not have proper supporting documentation, disbursements that did not have proper Fiscal Court approval, and invoices that were not properly cancelled.

Strong internal controls over disbursements are essential in ensuring disbursements are properly approved and recorded. They are also vital to ensuring that all disbursements are for the official business of the County. By having weak internal controls over disbursements, the County assumes a higher risk of misstatement or fraud.

Because of their importance, we recommend the County strengthen internal controls over disbursements. By requiring all disbursements to have proper supporting documentation, Fiscal Court approval prior to payment, and invoices that are cancelled to prevent duplicate payment, the county can strengthen its internal control system and reduce the risks associated with disbursements.

County Judge/Executive Viniard's Response: The fiscal court initials bills each court meeting except for standing ordering [sic] that are already approved by court.

2014-012 The Ballard County Fiscal Court Had Weak Internal Controls Over Capital Assets

Material weaknesses exist over the reporting of capital assets of Ballard County. The County's schedule of capital assets included misstatements of beginning asset balances, as well as assets purchased in the prior year that were included as current year additions.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. By having weak internal controls over capital assets, they are left vulnerable to misappropriation or misstatement.

In order to strengthen the county's internal controls over capital assets, we recommend the County establish a detailed inventory system. This system should include a detailed description of the asset, an inventory control number or serial number, the date acquired, purchase price, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of County assets should be updated throughout the year as new assets are acquired or old assets are retired. We also recommend the County conduct a physical inspection of the County's assets at the end of each year to make comparisons to the County's list of inventoried assets.

County Judge/Executive Viniard's Response: This has been resolved and up to date.

2014-013 Internal Control Over The Collection Of And The Accounting For Payroll Taxes Were Weak

Ballard County has material weaknesses surrounding the collection of payroll taxes, leaving them susceptible to errors and misappropriation. Weaknesses, such as the lack of a subsidiary ledger and the lack of record-keeping and collection of delinquent payroll taxes, put them at high risk that errors or fraud could occur and go undetected.

Strong internal controls over receipts are essential in ensuring that they are properly recorded. They also protect receipts from theft or misappropriation. Not only do strong internal controls protect the receipts at hand, but they also protect the individuals or employees that are in charge of accounting for them.

BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-013 Internal Control Over The Collection Of And The Accounting For Payroll Taxes Were Weak
 (Continued)

Therefore, we recommend the County strengthen internal controls over the collection of and accounting for payroll taxes. By implementing controls such as a subsidiary ledger, whereby all payroll tax receipts for each day are recorded, batched, and agreed to the daily deposits, and record-keeping and collection of delinquent taxes, the County can reduce the risks currently associated with payroll taxes.

County Judge/Executive Viniard's Response: Payroll taxes are added up 3 different times by Finance officer + Treasurer each day. Delinquent notices are sent out after the quarter. I feel like we are doing the best we can.

Auditor's Reply: By implementing the controls recommended in the comment above, including a subsidiary ledger and batched receipts, the County can strengthen its current internal control system by providing a paper trail from the physical receipt of the payroll tax, to the bank deposit, and to the general ledger posting. By doing so, the County will not only protect the receipts involved, but also the individuals involved in accounting for them.

2014-014 The Former Jailer Failed To Maintain Proper Accounting Records And Establish Financial Controls

Strong internal controls and proper accounting procedures are vital in ensuring that the jail commissary is accounted for properly. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* (DLG Manual), requires books of original entry be maintained for receipts and disbursements of all transactions of the Fiscal Court. They are also important in protecting the assets of the jail commissary, as well as those given the responsibility of accounting for them. Because the County failed to have either in place, the aforementioned findings occurred. In response to these findings, we recommend:

- At the end of each business day, the Jailer or assigned personnel should separate individual receipts into categories listed on the jail commissary check-out sheets as required by DLG Manual.
- Deposits should be made daily as required by the DLG Manual. The amount deposited should agree with the corresponding day's check-out sheet.
- Daily receipts should be posted to the jail commissary receipts journal on a daily basis as required by the DLG Manual. The total amount posted should agree with the corresponding day's check-out sheet and deposit.
- Jail commissary checks should be used in sequential order. Each check written should be posted to the jail commissary disbursements journal as required by the DLG Manual.
- Monthly bank reconciliations should be performed, reconciling the cash balance of the jail commissary to the bank balance as required by the DLG Manual.
- The Jailer should submit an annual jail commissary report to the County Treasurer as required by KRS 441.135(2).
- Proper supporting documentation should be maintained on all jail commissary expenditures.
- The Jailer should segregate the accounting functions of the jail commissary to the extent possible. For those duties that cannot be properly segregated due to a limited staff, the Jailer should provide strong oversight over these functions.
- Jail commissary profits should be properly turned over to the Jail Commissary Fund bank account.

BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-014 The Former Jailer Failed To Maintain Proper Accounting Records And Establish Financial Controls (Continued)

By implementing the above recommendations, the Jailer can strengthen internal controls over the jail commissary and help ensure compliance with the statutes that govern it.

Former Jailer Mike Horn's Response: The former jailer did not respond.

2014-015 The Former Jailer Failed To Deposit Receipts Into The Jail Inmate Account

In July 2014, \$19,605 was discovered locked in a file cabinet at the Ballard County Detention Center. These funds consisted of inmate monies, jail commissary commissions, phone commissions, and jail inmate pay from the state that were never deposited. These funds were made up of cash, checks, and money orders, some of which dated back to 2007. Because most of these checks and money orders were from previous years, the former Jailer's account was charged \$890 after the funds were deposited for items that were outdated. As a result, the balance of the jail inmate account is \$890 short of what it should be.

Minimum accounting and reporting standards, as prescribed by the State Local Finance Officer pursuant to KRS 68.210, require daily deposits to be made. Given the fact that the former Jailer was responsible for the operations of the detention center, he is personally responsible for the charges on the jail inmate account. Therefore, we recommend the former Jailer pay \$890 from personal funds to the Ballard County Detention Center to be deposited into the jail inmate account.

Former Jailer Mike Horn's Response: The former jailer did not respond.

2014-016 Inmate Fees Collected At The Detention Center Were Not Turned Over To The County Treasurer Timely

While performing audit procedures over jail commissary operations, we noted fees charged to inmates at the Ballard County Detention Center were not properly turned over to the County Treasurer for deposit into the Jail Fund. These fees charged to the inmates consist of funds collected at the detention center for past inmates, as well fees charged to the inmates' accounts while they are incarcerated. For the year of audit, neither type of receipt was turned over to the County Treasurer timely. As a result, Jail Fund revenues for the year were less than what they should have been.

Minimum accounting and reporting standards as prescribed by the State Local Finance Officer pursuant to KRS 68.210 require daily deposits. Therefore, any fees collected at the detention center should be turned over to the County Treasurer to be deposited into the Jail Fund bank account on a daily basis. For those fees charged to inmates that are currently housed at the detention center, we recommend the Jailer establish a schedule with the County Treasurer for these fees to be turned over and deposited into the Jail Fund.

Former Jailer Mike Horn's Response: The former jailer did not respond.

BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-017 Ballard County Did Not Properly Balance Their Annual Budget

Ballard County's operating budget for fiscal year 2014 was not properly balanced. Budgeted receipts of the Occupational Tax Fund did not agree with budgeted disbursements. Per the final approved budget, estimated receipts totaled \$1,805,900, while estimated disbursements totaled \$1,953,640, a difference of \$147,740 with disbursements exceeding receipts. This shortage of receipts appeared to be the result of an error made by the County.

According to KRS 68.220, "The county budget shall provide for all the funds to be expended by the county from current revenue for each fiscal year." By not having a balanced budget, the County could encounter a shortfall for the fiscal year. In the future we recommend that the County ensure that the budget for all funds is balanced in accordance with KRS 68.220.

County Judge/Executive Viniard's Response: This was an error. Was not aware of error until now. DLG also missed this error or we would have corrected it.

Auditor's Reply: The County budget process is the responsibility of the County Judge/Executive and the Fiscal Court. While the Department for Local Government (DLG) is a part of the budget process, it is not the responsibility of DLG to detect and/or correct any errors on the County's budget.

